



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

February 9, 2012

H.R. 3813 **Securing Annuities for Federal Employees Act of 2012**

*As ordered reported by the House Committee on Oversight and
Government Reform on February 7, 2012*

SUMMARY

H.R. 3813 would make several changes to the current retirement system for federal employees. Specifically, the legislation would increase the percentage of salary that federal employees in the Civil Service Retirement System (CSRS), Federal Employee Retirement System (FERS), and smaller retirement systems are required to pay towards their retirement, make changes to the benefit formula used to calculate retirement annuities for certain employees, eliminate the FERS retirement supplement that would be paid under current law to certain future retirees under the age of 62, and allow employees to contribute to their Thrift Savings Plan (TSP) accounts any payment received for accumulated and accrued annual leave.

CBO estimates that implementing the legislation would increase revenues by \$42 billion and decrease direct spending by \$2 billion over the 2012-2022 period. Pay-as-you-go procedures apply because enacting the legislation would affect direct spending and revenues.

H.R. 3813 contains no intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would impose no costs on state, local, or tribal governments.

The bill would impose a private-sector mandate on federal workers under FERS who are eligible by December 31, 2012 to retire and receive an annuity supplement and were not going to do so. Because of a lack of information about the potential behavioral responses of individuals to such a change, CBO cannot determine whether the cost of the mandate would exceed the annual threshold established in UMRA for private-sector mandates (\$146 million in 2012, adjusted annually for inflation).

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 3813 is shown in the following table. The impacts of this legislation fall within all functions of the budget.

	By Fiscal Year, in Millions of Dollars												2012-	2012-
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2017	2022	
CHANGES IN REVENUES ^a														
Estimated Revenues	0	1,163	2,342	3,470	3,977	4,305	4,664	5,060	5,465	5,898	5,807	15,257	42,151	
CHANGES IN DIRECT SPENDING ^b														
Estimated Budget Authority	0	-24	-89	-134	-176	-213	-242	-266	-298	-338	-390	-636	-2,169	
Estimated Outlays	0	-24	-89	-134	-176	-213	-242	-266	-298	-338	-390	-636	-2,169	
NET INCREASE OR DECREASE (-) IN THE DEFICIT FROM CHANGES IN DIRECT SPENDING AND REVENUES														
Impact on Deficit	0	-1,187	-2,430	-3,604	-4,153	-4,518	-4,906	-5,325	-5,763	-6,235	-6,197	-15,893	-44,320	
CHANGES IN SPENDING SUBJECT TO APPROPRIATION ^b														
Estimated Authorization Level	0	-1,175	-2,353	-3,478	-3,986	-4,315	-4,676	-5,074	-5,481	-5,916	-5,827	-15,306	-42,281	
Estimated Outlays	0	-1,175	-2,353	-3,478	-3,986	-4,315	-4,676	-5,074	-5,481	-5,916	-5,827	-15,306	-42,281	
Memorandum														
Reduction in Offsetting Receipts Resulting from Lower Employer Contributions ^c	0	1,175	2,353	3,478	3,986	4,315	4,676	5,074	5,481	5,916	5,827	15,306	42,281	

Sources: Congressional Budget Office and Joint Committee on Taxation.

- a. For revenues, positive numbers indicate a decrease in the deficit.
- b. For direct spending and changes in spending subject to appropriation, negative numbers indicate a decrease in the deficit.
- c. Employer contributions are intragovernmental transactions that do not affect the deficit; positive numbers indicate a decrease in offsetting receipts.

BASIS OF ESTIMATE

CBO estimates that H.R. 3813 would increase revenues by \$42 billion over the 10-year period, stemming mostly from changes to the retirement contribution rates for federal employees (\$43 billion), offset slightly by lower revenues (\$367 million) from a proposal to allow employees to contribute any payment received for accumulated annual leave to their TSP accounts.

Proposed reductions in the rates that agencies pay into the Civil Service Retirement and Disability Fund (CSRDF) on behalf of their employees would reduce spending subject to appropriations by \$42 billion over the 2012-2022 period, CBO estimates; those lower payments from agencies would also reduce the amount of offsetting receipts received by the CSRDF; together those changes would have no impact on the deficit. However, since discretionary spending is currently subject to caps through 2021 (as specified in the Budget Control Act of 2011—Public Law 112-25) and the legislation does not reduce those caps, CBO assumes the reductions in such spending would not result in a net decrease in discretionary funding.

CBO also estimates that H.R. 3813 would reduce direct spending by \$2 billion over the 2012-2022 period, as a result of eliminating the FERS annuity supplement for certain employees who retire before the age of 62 (\$1.9 billion) and because of proposed changes to the retirement formula for federal employees (\$274 million).

Changes in Employee and Agency Contributions

H.R. 3813 would increase the required contribution rate paid by federal employees and Members of Congress (in both CSRS and FERS) for their retirement by 1.5 percent of salary, phased in over three years (0.5 percent per year), beginning in January 2013. Under current law, most CSRS employees contribute 7 percent of their salary towards retirement and most FERS employees contribute 0.8 percent. The proposed rate increase would apply to all employees and Members with 5 or more years of federal service as of January 1, 2013.

For employees and Members who begin service on that date or later and have less than five years of prior federal service, H.R. 3813 would create a new retirement category of “secure annuity employees.” Such employees would be subject to a different contribution rate than CSRS and FERS employees: secure annuity employees would be required to pay 4 percent of their salary towards retirement (under current law this group would pay 0.8 percent of salary). A rate of 4.5 percent would apply to certain occupational groups—such as law enforcement officers, firefighters, air traffic controllers and nuclear materials couriers—who receive a higher pension benefit (the rate for this group under current law is 1.3 percent of salary).

For the purposes of this estimate, CBO assumes that the current population of approximately 2.8 million federal employees will be maintained throughout the period. As employees in place as of January 1, 2013, retire or otherwise withdraw from federal service, CBO assumes they would be replaced, in equal number, by secure annuity employees. The estimated annual rate of attrition for the group in place as of January 2013 increases from 17 percent in 2013 to 22 percent by 2022 for CSRS employees. The attrition rate for FERS employees is lower, ranging from 5 percent to 13 percent over the same time period, because of differences in the average age of each group.

H.R. 3813 specifies that the following additional retirement systems must conform with the provisions outlined in the legislation: the Foreign Service Retirement System, the Central Intelligence Agency Retirement and Disability System, and any defined benefit program that covers employees of the Tennessee Valley Authority.

Contributions by federal employees for their retirement are shown as revenues to the federal government; CBO estimates that the increase in the contribution rates proposed in H.R. 3813 would boost revenues by \$43 billion over the 2012-2022 period.

Federal agencies are also required to make contributions toward their employees' retirement. For each of the proposed rate increases for employees described above, H.R. 3813 would make a corresponding reduction in the rate required to be paid by the employing agencies. Reducing the employer contribution rates would lower spending subject to appropriation by \$42 billion over the 2012-2022 period.¹ However, this bill—or any legislation that would reduce the funds available for a particular discretionary program or that would achieve savings by undertaking a particular discretionary activity—would only reduce projected total appropriations if the caps on discretionary spending were also lowered. Without a reduction in the caps, CBO assumes funding for other discretionary programs would fill the gap created by the specific reduction or savings.

Changes to the Retirement Annuity Formula

For secure annuity employees, H.R. 3813 would make changes to the formula used to calculate retirement benefits. Instead of calculating benefits based on an employee's highest three consecutive years of salary, as under current law, the bill would calculate benefits based on the highest five consecutive years of salary. In addition, the multiplier used in the annuity calculation would be reduced by 0.3 percentage points, from 1.0 percent to 0.7 percent of salary, for most employees.² (Special occupational groups have a higher multiplier under current law, but would face the same proportional reduction under H.R. 3813.) The proposed changes in the multiplier and average pay calculations would reduce retirement annuities relative to current law. However, CBO expects that only a small number of secure annuity employees would retire in the 2012-2022 period; we estimate that the resulting drop in direct spending would total \$274 million over that 10-year period.

¹ The estimated reduction in spending subject to appropriation (from decreased employer contributions) does not exactly equal the increase in revenues (from increased employee contributions) because the Tennessee Valley Authority (TVA) does not receive funding through the appropriations process.

² The formula for calculating retirement benefits for most secure annuity employees under H.R. 3813 would be: average high-5 salary * number of years of service * 0.7.

Eliminate the FERS Annuity Supplement

Under current law, certain FERS employees who retire before the age of 62 receive a supplement to their annuity that is intended to equal what they would receive from the Social Security Administration if they were eligible for Social Security benefits at the time of retirement. The supplement ends when the retiree turns 62 or becomes eligible to receive actual Social Security benefits. H.R. 3813 would eliminate that supplement for all FERS employees other than law enforcement officers, fire fighters, air traffic controllers and nuclear materials couriers who retire after December 31, 2012. Approximately 7,600 new retirees (that are not on the list of exceptions listed above) each year receive an annual supplement of just under \$8,000 (inflated in future years to account for increased salaries). As a result, CBO estimates that this provision will lower direct spending by \$1.9 billion over the 2012-2022 period.

Leave Payout Contributions to the Thrift Savings Plan

H.R. 3813 would allow any employee of the federal government who is eligible to make contributions to the TSP to contribute to it any payment received for accumulated annual leave. Such contributions would be subject to the annual limits that otherwise apply—annual contributions are currently limited to \$17,000 for individuals ages 49 or younger and \$22,500 for individuals ages 50 or older.

Because income taxes are deferred on contributions to regular (non-Roth) TSP accounts, and earnings within the accounts would not be taxable, the anticipated increase in contributions would initially result in lower revenues from income taxes. The staff of the Joint Committee on Taxation estimates that the legislation would reduce revenues by \$367 million over the 2012-2022 period.

PAY-AS-YOU-GO CONSIDERATIONS

The Statutory Pay-As-You-Go Act of 2010 establishes budget reporting and enforcement procedures for legislation affecting direct spending or revenues. The net changes in outlays and revenues that are subject to those pay-as-you-go procedures are shown in the following table.

CBO Estimate of Pay-As-You-Go Effects for H.R. 3813, as ordered reported by the House Committee on Oversight and Government Affairs on February 7, 2012.

By Fiscal Year, in Millions of Dollars													
2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2012-	2012-	
											2017	2022	
NET INCREASE OR DECREASE (-) IN THE DEFICIT													
Statutory Pay-As-You-Go Impact	0	-1,187	-2,430	-3,604	-4,153	-4,518	-4,906	-5,325	-5,763	-6,235	-6,197	-15,893	-44,320

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

H.R. 3813 contains no intergovernmental mandates as defined in UMRA and would impose no costs on state, local, or tribal governments.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

The bill would impose a private-sector mandate on federal workers under FERS who are eligible by December 31, 2012 to retire and receive an annuity supplement and were not going to do so. The cost of the mandate would be the income some employees would forego as a result of losing the option to retire at a later date and draw the annuity supplement. Because of a lack of information about the potential behavioral responses of individuals to such a change, CBO cannot determine whether the cost of the mandate would exceed the annual threshold established in UMRA for private-sector mandates (\$146 million in 2012, adjusted annually for inflation).

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